

**TOWN OF FOUNTAIN HILLS
MINUTES OF THE WORK STUDY SESSION
FOUNTAIN HILLS TOWN COUNCIL
APRIL 12, 2016**

*** CALL TO ORDER AND ROLL CALL**

Mayor Kavanagh called the Work Study Session to order at 5.30 p.m. in the Fountain Hills Council Chambers.

Present for roll call were the following members of the Town Council: Mayor Linda Kavanagh, *Vice-Mayor Henry Leger, Councilmember Cecil Yates, Councilmember Dennis Brown, and Councilmember Nick DePorter.

*Vice-Mayor Henry Leger attended by telephone conference call.

Councilmember Alan Magazine arrived at 5:34 P.M.

Councilmember Cassie Hansen was absent.

Town Manager Grady Miller, Town Attorney Andrew McGuire, and Town Clerk Bevelyn Bender were also present.

**AGENDA ITEM #1 – PRESENTATION AND DISCUSSION OF THE TOWN OF FOUNTAIN HILLS’
FY2016/17 – LEVEL 1 CAPITAL RESERVE ANALYSIS.**

Town Manager Grady Miller addressed the Council and pointed out that the Town had not been accounting for or budgeting for replacement of the Town’s Capital items. Mr. Miller stated that most municipalities hired an outside firm to identify and help in this process and acknowledged that Paul Mood, Development Services Director had this responsibility, but some assistance was required.

Town Manager Miller referred to the “draft” reserve study that was briefly discussed at the 2016-17, Council Retreat and stated that the Council had requested a representative for the vendor provide a presentation at a future Council Work Study Session regarding the finalized study. Town Manager Miller stated that at that time he had proposed and recommended a budget a transfer of \$1M from the General Fund Reserves to the Facilities Replacement Fund in the FY2016/17.

Paul Mood stated that staff was asked to provide a reserve study analysis of all Town-owned facilities and assets for repairs and replacement. Staff hired the services of Capital Reserve Analysis, LLC to review and provide a level 1, “Full” Reserve Study to identify the Town’s larger items lacking Town budgeting. Mr. Mood added that those areas identified were all Town own buildings and facilities including the parking lots, major equipment and systems in the parks along with the Fire Department’s emergency equipment. He noted that the report did not include the Town’s pavement management or Town and Fire Department vehicles. Mr. Mood introduced Casey Arnett from “Capital Reserve Analysis” who would give an overview of their report.

Casey Arnett, P.R.A. included a PowerPoint Presentation ((available on-line and in the Town Clerk’s office) and stated his background in his field and noted his seven years experience. Mr. Arnett explained that it was important for the Town to accumulate funds and have a strategic plan for future repairs or replacements of the Town’s major common area assets. Mr. Arnett maintained that a Reserve Fund Strength was measured that the best position for the Town would be 100% funded and anything below 30% would be a weak position. He stressed the Town was sitting at the 14% funded level based on its assets in the component listing. He noted the Reserve Study Report presented the reserve component list, reserve fund status and a reserve funding amount necessary to be budgeted in the Town’s reserves to make it viable. Mr. Arnett added that the Reserve Study contained two components that included a physical analysis covering the responsibility and the condition assessment determination on how long the asset would last and a financial analysis of the cost including a funding model.

Mr. Arnett continued to explain that the reserve component criteria was determined from physical inspections and guidance from the Town Facilities staff and he noted that typically components with a useful life greater than 30-years were not considered as part of the analysis. He pointed out that the criteria eliminated unpredictable or random line items and noted that no items with a cost less than \$10,000 were included since those items could be funded with normal operating and/or maintenance funds. Mr. Arnett reviewed the typical components reviewed in the report. Mayor Kavanagh asked why vehicles were not included on the list. Town Manager Miller explained that

approximately six years ago the Town started funding a Vehicle Replacement Fund for the replacement of Town and Fire vehicles, but noted this fund was still underfunded.

Mr. Arnett explained the reserve study showed the fund status and proposed funding plans that would bring the reserve funding more closely to the 100% level. He reported that to acquire a fully funded balance was to take the current replacement cost of the component and multiply that by the age of the component and then divide that by the life expectancy of the component. Mr. Arnett added that in all locations and with a total of 199 components, the average estimated useful life expectancy was 19.8, with the remaining useful life expectancy of 10.3 and the current cost was estimated at \$13,394,530 with the annual deterioration cost of \$655,673. He believed to fully fund the reserve would amount to \$6,875,200. Councilmember Magazine asked if Mr. Arnett could give him the percentage range without having to be precise. Mr. Arnett answered that the report did not project a percentage range of plus or minus, but was only a projection of useful life of components within a range of this reserve study.

Mr. Arnett stated with a starting fund balance of \$1M and dividing that by 6.8% showed current fund strength of 14.5% and recommended current and future expenditures to the future contribution to the reserve fund annually would be \$960,000, using a practical approach overtime to bring the reserve fund to expected expenditures. He added that the fully funded reserve balance would cover the Civic Center, Fire Stations, Parks, Community Theater and the Kiwanis Building and also included the current amounts of replacement cost and the future funded balances necessary to fully fund the reserve. Mr. Arnett explained the fully funded balance over 30 years was a moving target as items aged and needed replaced and showed the fund increasing and decreasing through the years.

Mr. Arnett explained the reports reserve funding goals that included the Full Funding method with the goal of increasing the reserve fund status to 100% funded over the 30-year time frame, the Baseline Funding approach would involve a funding plan in place to fund exactly what was projected and he also expressed that this method caused uncertainty and was risky because replacement could be needed before funding was available and would cause the fund to be in the negative, and finally the Threshold Funding approach and was placed between the Full Funding approach and Baseline Funding method.

Councilmember Yates wanted to know where the Town stood at this point in funding the reserve balance. Town Manager Miller answered currently there was approximately \$300,000 in the reserve fund. He pointed to his current agenda action form and during discussions at the recent Council Retreat; he proposed and recommended in the FY2016/17 budget a transfer of \$1M from the General Fund Reserves to the Facilities Replacement Fund. Mr. Arnett's presented recommendations for stable contributions to fully fund by percent and explained that if expenses occurred before expectations, the reserve could see a negative fund balance since this was only a projection.

Mr. Arnett explained the financial assumptions contained an annual 3% average inflation rate and the average annual interest earned on reserve funds assumed at 1.65%. He continued that the analysis period for this time frame was the fiscal year beginning July 1, 2016 until June 30, 2045. He used an example to explain that if the Town owned an asset valued at \$10,000 with a 10-year service life expectancy and to fully fund the asset expect the balance to be increased by \$1,000 each year and at the replacement value in 5-years would then be \$5,000 and future years adding an additional \$1,000, which helped in calculating the \$6.875M represented. Councilmember Magazine said that with this analysis there were many unknowns that could happen and added that to deal with this was a tough situation. Mr. Arnett agreed but remarked this was better than the alternative.

Mr. Arnett recommended the 100% funding level at \$960,000 per year and offered the scenario to fund the reserve at 70% or \$864,000 per year annual contribution and finally the 50% funding plan funding at \$798,000 per year. He explained the 5-year funding plan comparison chart and the funding plan comparison graph slides. Mr. Arnett pointed out the graph that showed the largest expenditure was the future Fountain Park lake renovation, proposed in the year 2029/30 and expended in 2031.

Mr. Arnett remarked that the National Reserve Study Standards had criteria in their guidelines that included a four part test for an item to be included and planned for in a reserve study. He continued that the asset had to be owned and needed to have a predictable useful life expectancy. Catastrophic events unplanned by nature were not included in this analysis but suggested coverage by creating a Contingency Fund for these types of expenses. Mr. Miller added that even with the proposed reserves there may be cases that expenditures would need a voter's approved bond to fully fund unforeseen items and explained this analysis was offered to make everyone aware of the known expenses the Town would incur in the future.

Mr. Arnett covered the graphical representation slide that broke down the immediate projected expenses for the next 5-year period by locations.

Councilmember Yates asked if along with the financial analysis was there a physical analysis. Mr. Arnett confirmed that part of the scope of work included a physical inspection of all the different components with each given an estimate life along with using certain conditions or circumstances that could accelerate the conditions of certain components, which was also reflected in the analysis. Councilmember Yates asked if Mr. Arnett recommended 100% funding since the Town was a smaller municipality and was tight on funds. Councilmember Yates also asked if the Town could graduate up by starting at 50% and then adjust funding if something catastrophic happened. Mr. Arnett answered he recommended the 100% funding goal since it was the most conservative method giving the Town the least emergency funding situation or having to defer maintenance creating assets to go down in value.

Mr. Arnett announced that Council had been given different scenarios for funding and understood it was their decision and hope they would take the Reserve Study and use it as a tool when applying the information it to their specific circumstances. Mr. Arnett pointed out that the amount between the 70% funding and 100% funding was not a lot since the Town's 199 assets were deteriorating on a mostly predictable schedule and annually costing about \$600,000 with a 14% funding level.

Mayor Kavanagh inquired where other municipalities fell in their percentage of funding compared to the Town since she understood his company had completed analysis for other entities. Mr. Arnett answered that the national averages were 70% of all entities were funded at 70% or below and were not fully funded. Mayor stated she understood that some municipalities may not have the additional funds available.

Mr. Miller explained the \$1M he proposed to be transferred from the General Fund into the Reserve Fund was seed money and Council would have to determine how the Town's reserve would be funded. He added that the Town's financial policy gave some guidelines for Council and staff detailing how to address certain Capital Improvement programs. Mr. Miller suggested Council approve a financial policy along with setting the threshold amount and identify the different sources that could be used for this funding. Mr. Miller stressed that funding at 100% would be very difficult to continue each year and the reserve fund was just a small cost of the Town's government. He expressed that other areas had not been funded or had been deferred due to lack of resources and he understood that maintaining an asset sometimes cost more than replacement. Mr. Miller suggested that he and the Director of Finance Craig Rudolphy return with a recommended financial policy for Council to then decide how to fund the reserve.

Councilmember DePorter asked how much the Town funded in the reserve last year. Mr. Miller answered \$100,000 with a scheduled \$1M proposed next year and he wanted them to know that the \$100,000 was a hardship and his proposal to transfer \$1M from the General Fund was taking from one reserve to another reserve.

Councilmember Magazine noted the Town \$6M cumulative short-fall and asked if full funding of the reserve was included. Mr. Miller answered that it was included. Councilmember Magazine then asked if the level of funding Council agreed upon affected the cost of our bonding or bond rating. Mr. Rudolphy answered that it should not. Mr. Miller perceived that people on the outside looked at how well the Town addressed our operations and demonstrating the Town was trying to do the right thing. Town Attorney Andrew McGuire addressed Councilmember Magazine's question and reported that about 12 to 13 years ago, when the Town was having some financial turmoil, not necessarily budget issues, and the rating agencies had put the Town on a "WATCH" for a period of time; he agreed with Mr. Rudolphy that there was not a direct correlation, but every step to financial sustainability was something good in their remarks, and he added the Town could always be placed on their "WATCH" list again.

Mayor Kavanagh asked Vice Mayor Leger if he had any questions or comments. Vice Mayor Leger stated he would be interested in knowing how municipalities of our Town's size ranked in their level of funding; he also thanked Mr. Arnett for his presentation. Mr. Arnett responded that he could create a comparable report of fully funded balances and the age of the entities and compare numbers with similar size in terms of reserve fund levels.

Councilmember Yates asked Mr. Arnett if he reviewed our preventive maintenance schedule. Mr. Arnett answered he had not but instead had performed an outside observation that included current conditions with prior maintenance programs and reflected that in his analysis.

Mayor Kavanagh asked if there were any additional questions for Mr. Arnett and there were none so she thanked him for his great presentation and for explaining his analysis so Council and the Town's residents could understand how this process worked.

Councilmember Yates requested additional maintenance information related to the Town's assets. Facilities Supervisor Raymond Rees addressed the Council and explained the Town had a good maintenance program for most of the larger HVAC systems located on our buildings by contracting a company to perform the maintenance on a quarterly basis. He continued that semi-annual maintenance was performed on the chillers including a full service report with recommendations for preventive maintenance. Mr. Rees stated that the parks were under Community Services Department and explained other facility items were addressed on an as needed basis or as time allowed such as painting or window replacement. Mr. Rees continued that maintenance was scheduled with a contractor annually on items such as back-flow preventers including repairs. He added that mechanical systems were also on maintenance programs.

Councilmember Yates asked for current conditions of Town owned building roofs. Mr. Rees responded that the roofs were 20-years old and were aging and some would need coating with possible replacement. He also pointed out that recently the Town Hall dome was repaired and additional sealing added. Mr. Rees stated that the Community Theater, over a 3 year period, had some of their roof repaired.

Mr. Miller asked about the basics such as tile polishing and carpet cleaning and asked what staff was doing to preserve them. Mr. Rees answered that facility staff cleaned as much as possible and noted the Community Center high trafficking area that would need to be refurbished. Mr. Miller pointed out that the tile areas had a long life and was holding up very well considering their age. Mr. Rees brought up the replacement of automatic faucets and flushers at the Community Center and Library within the last couple of years.

Mayor Kavanagh asked Mr. Rees if the Town provided all the maintenance to the Library and he responded yes; however, not for the museum.

Mr. Miller reminded Council of the April 19th Budget meeting and noted that these items were addressed in their budget books.

Mayor Kavanagh thanked staff for attending the meeting.

AGENDA ITEM #2 - ADJOURNMENT

Councilmember Yates **MOVED** to adjourn the meeting and Councilmember DePorter **SECONDED** the motion, which **CARRIED UNANIMOUSLY** (6-0), by those present. The Work Study Session adjourned at 6:28 p.m.

TOWN OF FOUNTAIN HILLS

By _____
Linda M. Kavanagh, Mayor

ATTEST AND
PREPARED BY:

Bevelyn J. Bender, Town Clerk

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Work Study Session, held in the Fountain Hills Town Hall Council Chambers on the 12th day of April, 2016. I further certify that the meeting was duly called and that a quorum was present.

DATED this 5th day of May, 2016.

Bevelyn J. Bender, Town Clerk